

AUDITING PROCEDURES REPORT

Issued under P.A.. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Cheboygan Area Public Library	County Cheboygan
Audit Date June 30, 2004	Opinion Date September 24, 2004	Date Accountant Report Submitted to State: November 15, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the **Governmental Accounting Standards Board (GASB))** and the Uniform **Reporting Format** for Financial Statements for Counties and Local **Units of Government** in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government* in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan.

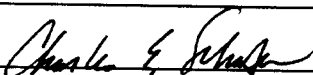
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A.. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A.. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Rehmann Robson		Charles E. Schafer, CPA	
Street Address 902 S. Huron St., PO Box 250	City Cheboygan	State MI	ZIP 49721
Accountant Signature 			

CHEBOYGAN AREA PUBLIC LIBRARY

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

September 24, 2004

To the Library Board of Trustees
Cheboygan Area Public Library
Cheboygan, Michigan

We have audited the accompanying financial statements of each major fund of the ***Cheboygan Area Public Library*** (the "Library") as of and for the year ended June 30, 2004, which collectively comprise a portion of the Library's basic financial statements required by accounting principles generally accepted in the United States of America, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Management has not presented government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the Library's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the ***Cheboygan Area Public Library***, as of June 30, 2004, or the changes in its financial position, for the year then ended.

The Library has not presented a Management's Discussion and Analysis (MD&A) as required supplementary information that the *Governmental Accounting Standards Board* has determined is necessary to supplement, although not required to be, a part of the basic financial statements.

Rehmann Lohman

CHEBOYGAN AREA PUBLIC LIBRARY

BALANCE SHEET GOVERNMENTAL FUNDS

JUNE 30, 2004

ASSETS	General	Capital	Total
		Campaign Building Fund	
			Governmental Funds
Cash and cash equivalents	\$ 846,430	\$ -	\$ 846,430
Due from other governmental units	96,515	-	96,515
Restricted cash	-	208,946	208,946
Total assets	<u>\$ 942,945</u>	<u>\$ 208,946</u>	<u>\$ 1,151,891</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 12,418	\$ -	\$ 12,418
Salaries payable and related expenses	5,443	-	5,443
Endowments	152	-	152
Total liabilities	<u>18,013</u>	<u>-</u>	<u>18,013</u>
Fund balances			
Reserved for building expansion	-	208,946	208,946
Unreserved			
Designated for contingency	350,000	-	350,000
Designated for library improvements	411,079	-	411,079
Undesignated	163,853	-	163,853
Total fund balances	<u>924,932</u>	<u>208,946</u>	<u>1,133,878</u>
Total liabilities and fund balances	<u>\$ 942,945</u>	<u>\$ 208,946</u>	<u>\$ 1,151,891</u>

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN AREA PUBLIC LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	General	Capital Campaign Building Fund	Total Governmental Funds
Revenues			
Current property taxes	\$ 278,762	\$ -	\$ 278,762
Penal fines	96,515	-	96,515
State grants	14,642	-	14,642
Book fines	3,735	-	3,735
Contributions	-	15,300	15,300
Interest earned	4,643	1,613	6,256
Miscellaneous revenue	4,479	100	4,579
Total revenues	402,776	17,013	419,789
Expenditures			
Salaries	167,432	-	167,432
Payroll taxes and fringe benefits	39,180	-	39,180
Supplies	9,516	219	9,735
Postage	4,717	728	5,445
Accounting and professional fees	3,972	-	3,972
Telephone	2,577	-	2,577
Public services	5,630	-	5,630
Insurance	6,574	-	6,574
Utilities	8,015	-	8,015
Repairs and maintenance	18,794	-	18,794
Capital outlay	14,173	-	14,173
Books and binding	42,801	-	42,801
Periodicals	5,760	-	5,760
Audio and video	10,469	-	10,469
Membership dues	7,800	-	7,800
Travel and workshops	3,533	-	3,533
Advertising	1,033	-	1,033
Miscellaneous expense	1,652	863	2,515
Library improvements - designated cash expenditures	37,350	-	37,350
Total expenditures	390,978	1,810	392,788
Net change in fund balances	11,798	15,203	27,001
Fund balances, beginning of year, as restated	913,134	193,743	1,106,877
Fund balances, end of year	\$ 924,932	\$ 208,946	\$ 1,133,878

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN AREA PUBLIC LIBRARY

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues				
Current property taxes	\$ 250,000	\$ 250,000	\$ 278,762	\$ 28,762
Penal fines	132,000	132,000	96,515	(35,485)
State grants	10,000	10,000	14,642	4,642
Book fines	3,000	3,000	3,735	735
Interest earned	10,000	10,000	4,643	(5,357)
Miscellaneous revenue	3,425	3,425	4,479	1,054
Total revenues	408,425	408,425	402,776	(5,649)
Expenditures				
Salaries	170,590	171,122	167,432	3,690
Payroll taxes and fringe benefits	41,530	42,948	39,180	3,768
Supplies	10,000	11,487	9,516	1,971
Postage	6,000	5,112	4,717	395
Accounting and professional fees	12,600	9,100	3,972	5,128
Telephone	2,500	2,588	2,577	11
Public services	7,500	8,138	5,630	2,508
Insurance	6,900	6,979	6,574	405
Utilities	9,750	10,053	8,015	2,038
Repairs and maintenance	34,400	31,647	18,794	12,853
Capital outlay	21,000	25,555	14,173	11,382
Books and binding	46,145	46,145	42,801	3,344
Periodicals	6,300	6,300	5,760	540
Audio and video	16,500	16,500	10,469	6,031
Membership dues	5,800	8,122	7,800	322
Travel and workshops	8,000	5,975	3,533	2,442
Advertising	1,000	1,100	1,033	67
Miscellaneous expense	5,500	3,094	1,652	1,442
Library improvements - designated cash expenditures	-	37,350	37,350	-
Total expenditures	412,015	449,315	390,978	(58,337)
Net change in fund balance	(3,590)	(40,890)	11,798	52,688
Fund balance, beginning of year, as restated	913,134	913,134	913,134	-
Fund balance, end of year	\$ 909,544	\$ 872,244	\$ 924,932	\$ 52,688

The accompanying notes are an integral part of these financial statements.

CHEBOYGAN AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Cheboygan Area Public Library (the "Library") was established under the authority of the District Library Establishment Act, PA 24 of 1989, as amended and the District Library Financing Act, PA 265 of 1988, as amended. The Library is governed by a Board of Trustees appointed by the townships of Aloha, Beaugrand, Benton, Grant and Inverness, the City of Cheboygan and the Cheboygan Area Public Schools. The Library was officially recognized by the Library of Michigan on November 3, 1994. Prior to obtaining district library status, the Library was under the control of the Cheboygan Area Public Schools. For reasons relating to separation and reporting issues, the Library remained under the School's control until June 30, 1995. On July 1, 1995, the Library received a cash transfer from the School equal to its share of the School's fund balance.

The service area of the Library encompasses the boundaries of the Cheboygan Area Public Schools' District, including the City of Cheboygan and surrounding townships, with the exception of Mullett Township.

Funds for the Library are generated primarily from assessments in the Library district and penal fines. A significant reduction in the amounts of these revenues, if this were to occur, may have an effect on the Library's activities. As a government entity, the Library is not subject to state or federal taxes.

Reporting Entity

The Library has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists only of the primary government. The criteria for including a component unit include entities for which the government is considered to be financially accountable.

Financial Statements

Under governmental accounting standards, the Library is required to present government-wide financial statements (i.e., a statement of net assets and a statement of activities), which are to be reported using the economic resources measurement focus and the accrual basis of accounting. The Library has not presented the required government-wide financial statements, as they have not maintained a list of capital assets or depreciated such assets.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

CHEBOYGAN AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes, intergovernmental revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the Library's primary operating fund. It accounts for all financial resources of the Library, except those required to be accounted for in another fund.

The *Capital Campaign Building Fund* is a Capital Project Fund. It accounts for monies raised and expenditures incurred related to the building expansion project.

Budgets and Budgetary Accounting

Comparisons to budget are presented for the General Fund. The budget is adopted on the modified accrual basis, which is consistent with generally accepted accounting principles (GAAP). Any revisions that alter the total expenditures of the fund must be approved by the Library Board of Trustees.

Budgeted amounts are as originally adopted, or as amended by the Library Board of Trustees. A budget is adopted at the activity level for the General Fund.

Assets, Liabilities and Equity

Deposits

The Library's cash and cash equivalents consist of demand and savings deposits.

CHEBOYGAN AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

Capital assets

Capital assets, which include land, building, furniture and fixtures and books, are not reported in the financial statements. Any outlays for capital assets are recorded as expenditures at the time of their purchase, in the applicable fund financial statements.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Risk management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for claims relating to employee injuries (workers' compensation) and medical benefits and participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss and general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past three fiscal years.

The shared risk pool program in which the Library participates operates as a common risk sharing management program for municipalities in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

2. DEPOSITS

At June 30, 2004, the carrying amount of the Library's deposits was \$1,055,376. The bank balance of these deposits was \$1,079,212 of which \$237,975 was insured by the Federal Depository Insurance Corporation (FDIC), and the balance of \$841,237 was uninsured and uncollateralized.

The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

CHEBOYGAN AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

Statutory Authority

Michigan law authorizes the Library to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptance of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

The Library Board of Trustees is authorized to designate depositories for Library funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

3. DEFINED BENEFIT PENSION PLAN

All employees of the Library who were employed prior to the Library's separation from the Cheboygan Public Schools on November 3, 1994 participate in the Michigan Public School Employees Retirement System (MPERS), a cost sharing, multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. Employees hired after November 3, 1994 are not eligible to participate in the System. MPERS provides retirement, survivor and disability benefits, and death benefits to plan members and beneficiaries. State of Michigan statute assigns the authority to establish and amend benefit provisions to the State Legislature. The Office of Retirement Systems issued a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

CHEBOYGAN AREA PUBLIC LIBRARY

NOTES TO FINANCIAL STATEMENTS

Funding Policy

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first 5,000; 3.6% of 5,001 through 15,000; 4.3% of all wages over 15,000. Basic Plan members make no contributions. The Library is required to contribute the full actuarial funding contribution amount to fund pension benefits plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The current rate is 12.99% of annual covered payroll. The contribution requirements of plan members and the Library are established by State of Michigan statute and may be amended only by action of the State Legislature. The Library's contributions to MPSERS for the years ended June 30, 2004, 2003, and 2002 were \$7,666, \$9,020 and \$12,339, respectively, equal to the required contributions for each year.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage, which are funded on a cash disbursement basis. Retirees having these coverages contribute an amount approximately equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages.

4. RESTATEMENT

For the fiscal year ending June 30, 2004, the Library changed from the cash to the accrual basis of accounting. Based on this change in accounting methods, beginning fund balance was restated by \$109,731; fund balance was reduced by \$19,704 relating to payables not recorded as of June 30, 2003 and was increased by \$129,435 relating to receivables not recorded as of June 30, 2003.

5. SUBSEQUENT EVENT

On June 14, 2004, a millage was passed to support the building expansion project with an estimated cost of \$2,875,000. Construction is scheduled to start in the spring of 2005; no contracts have been signed to date.



REHMANN ROBSON

Certified Public Accountants

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September 24, 2004

To the Library Board of Trustees
Cheboygan Area Public Library
Cheboygan, Michigan

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of ***Cheboygan Area Public Library*** for the year ended June 30, 2004, we considered the Library's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during the above-mentioned engagement, we became aware of opportunities for strengthening controls and improving operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated September 24, 2004 on the financial statements of ***Cheboygan Area Public Library***.

We have already discussed these comments with the Director and Bookkeeper, and we would be pleased to discuss them in further detail at your convenience.

If we can be of assistance, we hope you will view us as an integral part of your team.

Best wishes for a successful 2004-2005.

Encl.1

FUND ACCOUNTING

The accounts of the Library should be organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund should be accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Currently, the General Fund and Capital Campaign Building Capital Project Fund are accounted for in the same fund (QuickBooks company/trial balance). We recommend the Library set up a new company in their QuickBooks software to provide for the separate set of self-balancing accounts for the Capital Project Fund. We will assist the Bookkeeper by proposing reclassification entries to move the Capital Campaign Building Fund activity as of July 1, 2004.

MICHIGAN FINANCE QUALIFYING STATEMENT

Beginning January 1, 2004, all governmental units subject to the Revised Municipal Finance Act (PA 34 of 2001) must submit their qualifying statement electronically using the Department of Treasury's website. The Library established a password to submit the qualifying statement on-line in July; this password will be used to submit qualifying statements electronically for the 2004 and subsequent fiscal years. This report is due within six months of the fiscal year end. We recommend the Library add the submission of this report to their calendar of year end responsibilities to ensure timely filing.

ELECTRONICALLY FILING THE FINANCIAL STATEMENTS

Beginning with the fiscal year ended June 30, 2004, the Library may submit their financial statements to the State of Michigan electronically. To do so, the financial statements must be created electronically in an Adobe Acrobat file. This file may also be forwarded to bond counsel for preparation of the SEC continuing disclosures. We will provide an electronic version of the financial statements for your use.

CONCLUSION

It has been a pleasure to provide audit services to *Cheboygan Area Public Library*. Management was prepared for the audit, providing us with a reasonably adjusted trial balance and all supporting documents requested. Thank you for providing all requested information.

We appreciate your business! Thank you.